Attachment 5E
Page 1 of 1

Iowa-Illinois Gas & Elec. Company
Docket No. RPU-92-5
Interest Synchronization
Electric Operations

Line No.	Description	Amount
	(a)	(b)
1	Rate Base	$435,469,240
2	Weighted Cost of Debt	3.591%
3	Pro Forma Interest	$15,636,182
4	Book Interest	15,964,000
5	Difference	($327,818)
	Tax Adjustments:	
6	Federal (30.54%)	$100,116
7	State (10.17%)	$33,339

Attachment 6E
Page 1 of 1

Iowa-Illinois Gas & Elec. Company
Docket No. RPU-92-5
13 Month Average Weighted Cost of Capital
Electric Operations

Line No.	Description	Amount	Ratio	Cost Rate	Weighted Cost
		(a)	(b)	(c)	(d)
1	Long-term Debt	$333,595,630	45.75827%	7.847%	3.591%
2	Preferred Stock	$60,006,953	8.23097%	7.331%	0.603%
3	Common Stock	$335,436,452	46.01077%	11.900%	5.475%
4	Total	$729,039,035	100.00000%		9.669%

Iowa-Illinois Gas & Elec. Company
Docket No. RPU-92-5
Revenue Requirement
Gas Operations

Line No.	Description	Amount
	(a)	(b)
1	Rate Base	$84,873,252
2	Rate of Return	9.715%
3	Allowed Return	$8,245,738
4	Adjusted Test Year Income	$5,213,896
5	Additional Income Required	$3,031,842
6	Income Tax Effect	$2,081,739
7	Revenue Deficiency/(Excess)	$5,113,581
8	Adjusted Test Year Revenue	$129,839,742
9	Revenue Requirement	$134,953,323

* Not all numbers may compute due to computer rounding.

Iowa-Illinois Gas & Elec. Company
Docket No. RPU-92-5
Average Rate Base
Gas Operations
(000's)

Line No.	Description	Plant In Serv.	Accum. Depr.	Net Plant	Cust. Adv.	Cust. Dep.	Def. Income Taxes	3% Inv. Tax Credits	Accum. Prov.	Cash Work. Cap.	M&S	Prepaid Gas	Other Pre-Payments	Working Funds	Avg. Rate Base
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
1	Per Books	$164,739	$70,162	$94,577	$910	$603	$16,216	$173	$2,223	($2,437)	$1,000	$8,270	$285	$80	$81,650
	Pro Forma Adjs.														
2	Gas Leases	($183)		($183)			($96)								($87)
3	Def. FIT--FMPG			0			0								0
4	PBOP						0								0
5	Pensions			0			0								0
6	Sale to Intercoast	(80)		(80)											(80)
7	Def. FIT--TOP						(4,683)								4,683
8	Cash Working Cap.									232					232
9	NNG Interconnect	0		0											0
10	Non-Property DIT						1,524								(1,524)
11															
12															
13															
14															
15															
16	Total Adjs.	(263)	0	(263)	0	0	(3,255)	0	0	232	0	0	0	0	3,224
17	Adjusted Rate Base	$164,476	$70,162	$94,314	$910	$603	$12,961	$173	$2,223	($2,205)	$1,000	$8,270	$285	$80	$84,873

Iowa-Illinois Gas & Elec. Company
Docket No. RPU-92-5
Income Statement
Gas Operations
(000's)

Line No.	Description	Rate Revenue	Other Revenue	Total Revenue	O&M	Not Used	Not Used	Depr. and Amort.	Other Taxes	Federal Inc. Taxes	State Inc. Taxes	Def. Inc. Taxes	Inv. Tax Credits	Total Expenses	Net Income
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
1	Per Books	$115,540	$13,936	$129,476	$113,155	$0	$0	$5,107	$3,948	$4,274	$1,266	($3,229)	($156)	$124,365	$5,111
	Pro Forma Adjs.														
2	Updated Cust. Level	353		353						108	36			144	209
3	Temp. Normalization	297		297						91	30			121	176
4	Flex Pricing	0		0						0	0			0	0
5	Gas Leases	29	(288)	(259)	(171)			(74)		(4)	(1)			(251)	(8)
6	Remediation Costs			0	248					(76)	(25)			147	(147)
7	Gen. Wage Adj.			0	768					(234)	(78)			455	(455)
8	Payroll Related Exp.			0	21				55	(23)	(8)			45	(45)
9	Add. Reg. Personnel			0	116					(35)	(12)			69	(69)
10	Medical Exp.			0	194					(59)	(20)			115	(115)
11	PBOP			0	0					0	0			0	0
12	Pensions			0	0					0	0			0	0
13	Ut. Prop. Acq. Costs			0	(36)					11	4			(22)	22
14	Bank Fees			0	76					(23)	(8)			45	(45)
15	Cust. Dep. Interest			0	73									73	(73)
16	IUA Dues			0	(24)					7	2			(14)	14
17	Chamber Dues			0	(8)					2	1			(5)	5
18	UDC Dues			0	16					(5)	(2)			10	(10)
19	Rate Case Exp.			0	68					(21)	(7)			41	(41)
20	Sale to Intercoast		(27)	(27)				(11)	(3)	(4)	(1)			(20)	(8)
21	Interest Sync.			0						(62)	(20)			(82)	82
22	Prior Tax Adj.			0						(481)	(129)			(610)	610
23				0						0	0			0	0
24				0						0	0			0	0
25				0						0	0			0	0
26				0						0	0			0	0
27				0						0	0			0	0
28				0						0	0			0	0
29				0						0	0			0	0
30	Total Adjs.	679	(315)	364	1,341	0	0	(86)	52	(808)	(239)	0	0	261	103
31	Adj. Inc. Statement	$116,219	$13,621	$129,840	$114,496	$0	$0	$5,022	$4,000	$3,466	$1,027	($3,229)	($156)	$124,626	$5,214

Iowa-Illinois Gas & Elec. Company
Docket No. RPU-92-5
Cash Working Capital
Gas Operations

Attachment 4G
Page 1 of 1

Line No.	Description	Per Books (a)	Pro Forma Adjustments (b)	Adjusted Total (c)	Expense Per Day (d)	Rev. Lag Days (e)	Exp. Lead Days (f)	Net Days (g)	Working Capital Requirement (h)
1	Purchased Gas	$85,744,670	0	85,744,670	234,917	37.90	39.36	(1.5)	($342,979)
2		$0	0	0	0	37.90	0.00	37.9	$0
3		$0	0	0	0	37.90	0.00	37.9	$0
4	Payroll	$12,990,000	904,079	13,894,079	38,066	37.90	10.90	27.0	$1,027,781
5	Other O & M	$8,632,000	436,807	9,068,807	24,846	37.90	17.83	20.1	$498,784
6	Iowa Property Taxes	$2,647,000	0	2,647,000	7,252	37.90	365.01	(327.1)	($2,372,220)
7	Illinois Prop. Taxes	$23,000	0	23,000	63	37.90	418.23	(380.3)	($23,966)
8	State Income Taxes	$1,265,556	288,463	1,554,019	4,258	37.90	103.40	(65.5)	($278,372)
9	Federal Income Taxes	$4,274,183	746,601	5,020,784	13,756	37.90	60.08	(22.2)	($305,099)
10	Ill. Invested Cap. Tax	$51,000	0	51,000	140	37.90	34.21	3.7	$516
11	Federal Superfund Tax	$14,000	0	14,000	38	37.90	60.08	(22.2)	($851)
12	Long-term Debt Interest	$2,534,000	201,502	2,735,502	7,495	37.90	91.26	(53.4)	($399,908)
13	Preferred Stock Dividends	$407,000	0	407,000	1,115	37.90	45.64	(7.7)	($8,628)
14		$0	0	0	0	0.00	0.00	0.0	$0
15	Cash Working Capital Requirement								($2,205,441)

Attachment 5G
Page 1 of 1

Iowa-Illinois Gas & Elec. Company
Docket No. RPU-92-5
Interest Synchronization
Gas Operations

Line No.	Description (a)	Amount (b)
1	Rate Base	$84,873,252
2	Weighted Cost of Debt	3.591%
3	Pro Forma Interest	$3,047,502
4	Book Interest	2,846,000
5	Difference	$201,502
	Tax Adjustments:	
6	Federal (30.54%)	($61,539)
7	State (10.17%)	($20,493)

Attachment 6G
Page 1 of 1

Iowa-Illinois Gas & Elec. Company
Docket No. RPU-92-5
13 Month Average Weighted Cost of Capital

Line No.	Description	Amount	Ratio	Cost Rate	Weighted Cost
		(a)	(b)	(c)	(d)
1	Long-term Debt	$333,595,630	45.758%	7.847%	3.591%
2	Preferred Stock	$60,006,953	8.231%	7.331%	0.603%
3	Common Stock	$335,436,452	46.011%	12.000%	5.521%
4	Total	$729,039,035	100.000%		9.7154%

STATE OF IOWA

IOWA UTILITIES BOARD

Docket No. RPU-92-5
Direct Testimony of Charles A. Benore

Q. Please state your name, position, and business address.

A. Charles A. Benore, First Vice President, Paine Webber, Inc., 1285 Avenue of the Americas, New York, New York 10019.

Q. What are your current responsibilities at Paine Webber?

A. I am responsible for providing utility investment advice to the firm's clients who are institutional and individual investors. As a part of those responsibilities, I am in continuing contact with investors in utility common stocks and am aware of their attitudes about utility investments.

Q. Please summarize your professional experience.

A. I have presented testimony before twenty-seven state Public Service Commissions including this Board, the Federal Energy Regulatory Commission, and the Securities and Exchange Commission on rate of return and other subjects. A detailed summary of my professional experience appears on Schedule 1 of my Exhibit ____ (CAB-1). A list of recent rate cases in which I testified along with subject matter and docket numbers also appears in Schedule 1.

Q. What is the purpose of your testimony?

A. I have been retained by Iowa-Illinois Gas and Electric Company (Iowa-Illinois or Company) to determine its cost of common stock capital for its electric and gas operations.

SUMMARY

Q. Please summarize the conclusions in your testimony.

A. Based upon my analysis using an equity risk premium test, a standard discounted cash flow (DCF) test, and two comparable risk DCF tests, Iowa-Illinois' cost of common stock is within the range of 10.86% to 13.95% before recognizing issuance costs. Because (1) the standard DCF model is currently providing a downward biased return and has understated returns earned by investors in the past, and (2) risk is now higher in utility stocks than in the past and is now comparable to non-utility companies, I recommend that the Board authorize Iowa-Illinois a return on common stock equity for its electric operations at least equal to the average of the four tests that I have conducted or 12.9% before recognizing issuance costs. I further recommend that the Board allow 30 basis points for issuance costs, increasing the allowed return on common stock equity for the Company's electric operations to 13.2%.

With respect to Iowa-Illinois' gas operations, I recommend the Board allow an additional 15 basis points for the higher risk in the gas business as the Board has done in the past, producing an allowed return on common stock equity of 13.05% before recognizing issuance costs. Consistent with my recommendation regarding electric operations, I recommend an additional 30 basis points be allowed for issuance costs on common equity associated with the gas operations, producing an allowed return on common equity of 13.35%.

GUIDING PRINCIPLES

Q. What economic and financial principles did you consider in determining Iowa-Illinois' cost of common stock capital?

A. Iowa-Illinois, like other investor-owned electric and gas companies, is owned and financed by investors who invest savings into its securities with the expectation of earning a fair, risk-adjusted return. Investors are guided by the principles that returns rise and fall with higher and lower levels of risk, and that U. S. government bonds represent lowest risk, long-term capital. For a given level of risk, investors attempt to maximize the return on their savings and invest in those companies that provide the highest expected return.

Q. What are the underlying assumptions of the comparable risk DCF tests?

A. They are the same as for the standard DCF tests.

Q. Have the assumptions been met?

A. No, not perfectly. However, the comparable risk DCF tests are closer to the cost of common stock indicated by the equity risk premium test cost of common stock. The equity risk premium model has been more accurate than the standard DCF model in determining market returns when adjusting for changes in growth expectations and the discount rate has been reasonably stable. Moreover, companies in the comparable risk DCF test are less subject to the defensive demand and yield demand biases that affect the standard DCF model results.

ISSUANCE COSTS

Q. Why is it necessary to adjust the allowed return on common stock equity for issuance costs?

A. Issuance costs are a necessary adjustment if investors are to earn the return found fair by the Board. It is a necessary adjustment even if new common stock was not being sold.

The reason is that we are not dealing with an expense in the ratemaking sense, but a permanent capital shortfall or reduction in earning assets caused by issuance costs. Because of the reduction in capital invested due to issuance costs, earning assets are less than invested assets. A fair return applied to earning assets, therefore, produces a lower than fair return on invested assets, or investment by investors. A discussion of why the adjustment is necessary along with supporting data appear in Schedule 11.

The formula to equate the cost of common stock equity capital to the return necessary after issuance costs under the DCF methodology is to divide the yield on a 12-month forward dividend by 1.0 less issuance costs. For example, Iowa-Illinois' issuance costs have averaged 4.2% for common stock issuances in recent years. This is shown in Schedule 11. Therefore, the yield of each comparable company was divided by .958 (1.000 - .042).

Q. Why does the formula used to show the cost of common stock equity adjusted for issuance costs not apply to the growth rate in the DCF model as well as the current yield on a 12-month forward dividend?

A. Under the standard DCF model, it is often assumed that growth stems from retention of retained earnings so there are no issuance costs for that component of return.

Q. With respect to the results of your tests other than the standard DCF, what amount should be added to the indicated cost of common equity to recognize costs of issuance?

A. The indicated cost of common equity should be increased by 30 basis points to recognize the issuance costs.

IOWA-ILLINOIS' COST OF COMMON STOCK CAPITAL

Q. What is your conclusion about the investor required return on common stock equity for Iowa-Illinois' electric operations?

A. Iowa-Illinois' cost of common stock for electric operations is as follows:

Tests	Cost
Equity Risk Premium	14.0%
Standard DCF	10.9%
CRDCF, S&P 500	13.3%
CRDCF, Value Line	13.2%
Average	12.9%
Issuance Costs	00.3%
Total Cost	13.2%

The simple average of the costs is 12.9% before issuance costs and 13.2% after issuance costs. The cost is at least this high because of the evidence that indicates the standard DCF test is downward biased. In addition to the evidence in my testimony, the downward bias is also apparent when using other methods to determine the cost of common stock.

Q. What is the cost of common stock for Iowa-Illinois' gas operations?

A. Consistent with the Board's prior decisions, the cost of Iowa-Illinois' common stock equity for its gas operations is at least 15 basis points higher than for its electric operations because of the higher risk. This produces a cost of common stock equity for gas operations of 13.05% before issuance costs and 13.35% after issuance costs are recognized.

Q. Are there any final checks you can present that would further indicate that Iowa-Illinois' cost of common stock is substantially higher than indicated by the standard DCF model?

A. Yes. There are two. First, investors have earned a return in electric and combination electric and gas common stocks over the 1986-91, 1981-91 and 1971-91 periods of 16.9%, 20.2%, and 13.1%. In light of past experience, it is not unreasonable to expect that investors require returns for the Company of 13.2% on electric operations and 13.35% on gas operations.

Second, the return that the Board allows will be converted into a book return when it is applied to the common stock equity of Iowa-Illinois. Therefore, a comparison can be made with the book returns expected by investors using Value Line data. As shown in Schedule 12, the longer-term, 1995-97, expected return on common stock equity for the six comparable companies averages 12.9%. The Value Line returns are based on year-end common stock equity. On average common stock equity, the expected return on equity would be about 13.25%.

Both of these checks are comparable to or higher than the cost of 13.2% for the Company's electric operations and 13.35% for its gas operations.

Q. Does this conclude your direct testimony?

A. Yes, thank you, it does.

ISSUANCE COSTS

Flotation or issuance costs are those costs incurred in the issuance of new common stock and take the form of underwriter's compensation and other related expenses. An adjustment for these costs is necessary if investors are to earn the return found fair by the Commission. It is necessary even if new common stock is not sold. Because of issuance costs, net proceeds are less than invested capital. Issuance costs are not recovered as expenses in the ratemaking sense, but result in a permanent reduction in book equity. A fair return applied to book equity with no adjustment for issuance costs would produce a lower than fair return on investors' capital.

When evaluating the need for an adjustment for common stock issuance costs, it is instructive to note the treatment given to expenses incurred in conjunction with a debt issue. The true cost of debt, issued at par, is greater than its coupon, or interest rate, because of the costs incurred in issuing the bonds. For example, if a company sold $100 million of debt at par, with a 10.0% rate of interest and received proceeds of $97 million, the cost is not 10.0% but is 10.33%. The cost is higher because proceeds to the company were less than the amount of debt issued due to issuance expenses. The higher cost reflects recovery of issuance expenses over the life of the bond. Moreover, it is necessary to recognize this cost over the life of the bond, irrespective of whether additional new debt is, or is not, sold.

A similar adjustment is necessary to determine the cost of perpetual preferred stock. For example, if a company issued $100 million of preferred stock, at par, at an 8.50% dividend rate, but only received proceeds of $97.5 million, the cost to the company is 8.72%, not 8.50%. This higher cost reflects the recovery of the issuance expenses in each year for this security. In this case, the preferred stock issue is assumed to be perpetual in nature as is common stock.

The same requirement is necessary for the Company's common stock, with recognition that common stock is assumed to be outstanding indefinitely. After paying issuance costs, net proceeds to the company are less than the total invested by stockholders. The net proceeds must earn at a higher rate in order to provide the intended return on all the monies actually invested.

A simple example shown beginning on page 3 of this Schedule will show that a permanent adjustment for flotation costs is necessary. Assume, for example, that:

1. The company issued $100 million of common stock.

2. The cost of common stock was 13.00% with a 4.50% growth and a 8.50% yield. The estimate of 13.00% was the rate which the commission determined to be fair and reasonable.

3. Issuance costs were 4.0%. See page 6 of this Schedule which details the stock issuances and related expenses.

4. No additional common stock was sold.

After issuance costs, proceeds from the $100 million sale of common stock would be $96.00 million. Therefore, the common equity added to the sample company's books is $96.00 million. The example shows that for the company to earn $13.00 on the investment by stockholders of $100 million, an allowed return of 13.35% would be required on the $96.00 million.

The formula to equate the cost of common equity capital to the return necessary after issuance costs under the methodology is to divide the yield on a twelve-month forward dividend by 1.0 less issuance costs. It can be seen in this example that this type of adjustment will allow the sample company to earn the 13.00% return the Commission found to be fair in every year.

It is important to note that this adjustment must be made in every year even though no new equity was issued.

ISSUANCE COSTS ARE APPROPRIATELY ALLOWED
ON ALL INVESTED EQUITY

COLUMN:	A	B	C	D	E	F
Year	COMMON EQUITY ($MM)	RETAINED EARNINGS ($MM)	TOTAL EQUITY ($MM)	REQUIRED ROE	CURRENT EARNINGS ($MM)	PAYOUT RATIO
0	96.00	-	96.00	13.35%	12.82	66.3%
1	96.00	4.32	100.32	13.35	13.39	66.3
2	96.00	4.63	104.95	13.35	14.01	66.3
3	96.00	4.85	109.80	13.35	14.66	66.3
4	96.00	5.07	114.87	13.35	15.34	66.3
5	96.00	5.31	120.18	13.35	16.04	66.3

COLUMN:	G	H	I	J	K	L
YEAR	COMMON SHARES (MM)	DIVIDENDS PER SHARE ($)	DIVIDEND YIELD (%)	SHARE PRICE ($)	PRICE CHANGE (%)	TOTAL RETURN (%)
0	10	0.850	8.5	10.00	-	-
1	10	0.887	8.5	10.45	4.5	13.00
2	10	0.929	8.5	10.92	4.5	13.00
3	10	0.972	8.5	11.41	4.5	13.00
4	10	1.017	8.5	11.93	4.5	13.00
5	10	1.063	8.5	12.46	4.5	13.00

KEY TO EXAMPLE

COLUMN:

A:	COMMON EQUITY	=	(1.0-.04 ISSUANCE COSTS) x $100 MM IN NEW EQUITY
		=	$96.00 MILLION
B:	RETAINED EARNINGS		PRIOR YEAR'S EARNINGS - PRIOR YEAR'S DIVIDENDS
			(COLUMN E) - COLUMN G X COLUMN H)
		=	$12.82MM - (10MM SHARES X $0.85)
		=	$4.32
C:	TOTAL EQUITY	=	NEW COMMON EQUITY = $96.00 MILLION IN YEAR 0
		=	PRIOR YEAR'S EQUITY + CURRENT YEAR'S EQUITY (POST YEAR 0)
D:	REQUIRED RETURN ON EQUITY		REQUIRED DIVIDEND YIELD ADJUSTED FOR ISSUANCE COSTS
			REQUIRED YIELD DIVIDED BY (1-ISSUANCE COSTS) + GROWTH RATE
		=	8.5%/(1-.96) + 4.5%
		=	13.35%
E:	CURRENT EARNINGS		TOTAL EQUITY X REQUIRED RETURN
			(COLUMN C) X (COLUMN D)
	I.E. YEAR 1	=	$96.00 x 13.35%
		=	$12.82 MM.
F:	PAYOUT RATIO	=	1 - GROWTH REQUIRED/REQUIRED ROE
		=	1 - (.045/.1335)
		=	66.3%

G:	COMMON SHARES	=	TOTAL EQUITY INVESTED BY INVESTORS/PAR VALUE OF SHARES
		=	$100 MILLION /$10
		=	10 MILLION SHARES
H:	DIVIDENDS PER SHARE	=	EARNINGS X PAYOUT RATIO/SHARES OF COMMON STOCK
		=	(COLUMN E) X (COLUMN F)/COLUMN G)
		=	$12.82 X 66.3%/10 MILLION SHARES
		=	$0.85
I:	DIVIDEND YIELD	=	DIVIDENDS PER SHARE/SHARE PRICE
		=	(COLUMN H)/(COLUMN J)
		=	$0.85/$10.00
		=	8.5%
J:	SHARE PRICE	=	DIVIDENDS PER SHARE/(COST OF EQUITY - REQUIRED GROWTH RATE)
		=	$0.85/(0.13 - .045)
		=	$10.00
K:	PRICE CHANGE	=	CHANGE IN SHARE PRICE (COLUMN J)
		=	($10.45-$10)/$10
		=	4.5%
L:	TOTAL RETURN	=	DIVIDEND YIELD + SHARE PRICE APPRECIATION
		=	(COLUMN I) + (COLUMN K)
		=	8.50% + 4.5%
		=	13.0%

IOWA-ILLINOIS GAS AND ELECTRIC COMPANY
COMMON STOCK ISSUANCE COSTS

YEAR	SHARES ISSUED	SUBSCRIPTION PRICE	UNDERWRITING	OTHER ISSUANCE EXPENSES	TOTAL ISSUANCE EXPENSES
1972	511,713	$ 9,364,348	$122,649	$187,251	$ 309,900
1973	550,000	8,868,750	412,005	88,971	500,976
1975	1,000,000	18,000,000	830,000	115,592	945,592
1977	750,000	16,500,000	480,000	87,044[1]	567,044
1978	750,000	16,218,750	480,000	87,043[1]	567,043
1980	1,000,000	17,750,000	640,000	67,783	707,783
Totals		$86,701,848			$3,598,338
Average Issuance Cost					4.15%

Note:

[1] Issuance costs for the 1977 and 1978 common stock issues were reported together in 1978. For this purpose one-half assigned to 1977 and one half assigned to 1978.

Source: IWG

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DOCKET NO. RPU-93-4

STATE OF IOWA

TERRY E. BRANSTAD, GOVERNOR

IOWA UTILITIES BOARD
DEPARTMENT OF COMMERCE

IOWA-ILLINOIS GAS AND ELECTRIC COMPANY

Docket No. RPU-93-4

"ORDER APPROVING SETTLEMENTS"

Issued February 25, 1994

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing document has been served this day upon all parties of record in this proceeding by mailing, by first class mail, to each such party a copy thereof, in properly addressed envelope with charges prepaid.

Date: 2-25-94

Shelley Severin

FEB 28 1994

STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: IOWA-ILLINOIS GAS AND ELECTRIC COMPANY	DOCKET NO. RPU-93-4

ORDER APPROVING SETTLEMENTS

(Issued February 25, 1994)

This proceeding was initiated on May 3, 1993, by Iowa-Illinois Gas and Electric Company (Iowa-Illinois) filing with the Utilities Board (Board) a request for a permanent annual revenue increase in its Iowa jurisdictional electric rates of approximately $14.65 million, or 8.1 percent, over current rates. Iowa-Illinois requested temporary rates of approximately $11.85 million. On July 26, 1993, pursuant to Board authority, Iowa-Illinois implemented a temporary rate increase of approximately $6.8 million.

Two proposed partial settlements have been filed with the Board in this proceeding. Taken together, the two partial settlements would resolve all outstanding issues in Iowa-Illinois' pending electric rate case, identified as Docket No. RPU-93-4. The first partial settlement, filed August 4, 1993, dealt with Iowa-Illinois' revenue requirement and would resolve all issues except rate design and the final allocation of the revenue requirement among customer classes. The settlement proposed a revenue increase of approximately $6.8 million, which corresponded to the temporary increase implemented by Iowa-Illinois. The Board, on August 6, 1993, held the procedural schedule established in Docket No. RPU-93-4 in abeyance except for rate design and allocation issues pending a hearing on the proposed partial settlement.

The second partial settlement, filed August 10, 1993, would resolve all rate allocation and rate design issues. The first partial settlement is unanimous; the second partial settlement has been agreed to by all parties except the Consumer Advocate Division of the Department of Justice (Consumer Advocate). Consumer Advocate chose to contest the settlement and filed testimony regarding the allocation and rate design issues. In addition to Iowa-Illinois and Consumer Advocate, parties to this proceeding are Deere & Company, Sivyer Steel Corporation, Iowa Industrial Intervenors, Aluminum Company of America (ALCOA), and North Star Steel Iowa.

Pursuant to IOWA ADMIN. CODE 199-7.2(11)"c" and "d" (1994), parties opposed to a settlement are allowed 30 days from the date of filing of a proposed settlement to file comments contesting all or part of a settlement. Parties in favor of a proposed settlement then have 15 days to file reply comments. The rules provide that failure to file comments constitutes a waiver of any objections the party failing to file may have to the proposed settlement.

No comments were received in opposition to the revenue requirement settlement, although Iowa Industrial Intervenors and ALCOA claimed their agreement to the revenue requirement settlement was conditioned upon Board approval of the rate design settlement. Comments in opposition to the rate design settlement were received from Consumer Advocate. Iowa-Illinois and the various intervenors filed comments in support of this settlement. A hearing on both proposed settlements was held beginning November 30, 1993.

The parties had an opportunity to file post-hearing briefs. On December 21, 1993, the Board granted a motion for leave to amend Attachment A of the rate design settlement to correct two minor errors which were explained at the hearing.

REVENUE REQUIREMENT SETTLEMENT

The revenue requirement settlement sets a total Iowa jurisdictional electric revenue requirement of $205,185,289, an increase of $6,839,494, or approximately 4 percent. While the settlement was not initially executed by all parties, all parties to this proceeding have now agreed to the settlement.

The proposed settlement utilizes an 11.25 percent cost of equity. The overall rate of return used to calculate the annual revenue requirement is 9.33003 percent. The test period used to determine rates is calendar year 1992, as adjusted.

The hearing on the proposed settlement produced testimony which indicated the parties thoroughly examined the issues and worked to reach a compromise settlement. While the Board may not have reached the same decision on individual issues as reflected in the settlement, the overall terms of the settlement are reasonable and generally consistent with recent Board decisions.

After reviewing the complete record in this proceeding, pursuant to IOWA ADMIN. CODE 199-7.2(11) (1994), the Board finds the terms of the parties' August 4, 1993, settlement to be reasonable and will approve it. There are no aspects of the settlement agreement which are inconsistent with Iowa law or the rules of the Board and the terms of the settlement are reasonable and in the public interest. The August 4 settlement is incorporated into this order by reference.

RATE DESIGN AND ALLOCATION SETTLEMENT

The August 10, 1993, settlement resolves all rate design issues and the final allocation of the revenue requirement among customer classes. All parties except Consumer Advocate agreed to the second settlement.

Extensive comments were filed regarding this proposed settlement. Consumer Advocate filed testimony in support of an alternative rate design. Consumer Advocate also proposed certain adjustments to the rate design settlement. Several witnesses at hearing testified regarding rate design and final allocation. The comments and testimony were helpful in illuminating the differences between the rate design settlement and Consumer Advocate's alternatives and framing a record for determining the reasonableness of the proposed settlement.

The class cost-of-service study contained in the rate design settlement utilizes the average and excess method. The average and excess method allocations recognize that electric utility systems are required to serve both peak and off-peak demands. Fixed production costs are generally classified as demand costs and allocated based on a combination of average maximum customer class demands, and variable production costs are generally classified as energy costs and allocated by overall customer class usage.

Consumer Advocate, in opposing the settlement, advocated a different approach to the class cost-of-service study. Consumer Advocate classified both fixed and variable production costs into "average demand" and "excess demand" components. "Average demand" production costs are allocated by demands rather than Iowa peak and average demands for deriving the allocators used in the average and excess method. However, the use of Iowa load research data rather than total system data ensures consistency by matching Iowa revenues and expenses with the basis for causation of those revenues and expenses, that is, Iowa load.

Consumer Advocate advocated using the 12 monthly coincident peaks rather than a single annual coincident peak with the average and excess method. Iowa utilities generally use an unadjusted test year single coincident peak to develop average and excess demand. Use of Consumer Advocate's method would fundamentally change the general use of the average and excess method.

Consumer Advocate also proposed adjustments to the settlement for allocation of certain rate base items, allocation of non-fuel production and transmission operating expenses, allocation of administrative and general expenses, and EPRI dues. Consumer Advocate does not adequately support its proposal for allocating all non-fuel production operating costs and transmission operating costs based on class energy usage. The only specific reference cited was for the energy-based allocation of expense accounts 502, 505, 512, and 514. (Tr. 534). These and the other proposed expense and rate base allocation adjustments would make only minor differences in the settlement's final revenue changes.

In reviewing a proposed settlement, the Board must determine whether the settlement, whether contested or uncontested, is reasonable in light of the whole record, consistent with law, and in the public interest. IOWA ADMIN. CODE 199-7.2(11) (1994). The Board must look at the entire overall customer class usage, and "excess demand" production costs are allocated by peak customer class demand.

The method espoused by Consumer Advocate generally assigns baseload and production costs to the "average demand" portion and assigns other plant and costs to the "excess demand" portion. The Board believes, however, this method has a basic conceptual flaw. Economic choices between baseload and peaking capacity are based on minimization of total costs rather than minimization of energy or capital costs alone. A utility builds its mix of generating plants to serve total system load. Individual generating units are not built to serve a particular load, i.e., "average" or "excess" load, as assumed by Consumer Advocate's method.

Consumer Advocate's method also appears to be somewhat subjective. It requires numerous adjustments and is difficult to replicate. In addition, Consumer Advocate's method is extremely sensitive to the type and timing of generating plant additions. This sensitivity is less likely to produce stable results over time. While no such adjustments based on replacement cost were made by Consumer Advocate in this case, future use of this method would be susceptible to such adjustments. (Tr. 310-11; 510; Ex. 101, Sch. SA-2). Consumer Advocate's reliance on "replacement" costs for plant addition adjustments is contrary to the Board's preference for use of embedded costs for purposes of determining revenue requirements among customer classes. IOWA ADMIN. CODE 199-20.10(2) (1994).

As an alternative to its approach to the class cost-of-service study, Consumer Advocate proposed several adjustments to the second settlement. One such adjustment was to use Iowa-Illinois' system peak and average settlement. A settlement in its entirety may be reasonable even though the Board may not have reached the same decision on individual issues as reflected in the settlement.

The Board believes consistency in cost allocation and rate design methodology is important in promoting stable rates. The average and excess method used in the proposed second settlement has been approved by the Board in several recent cases. See Interstate Power Company, Docket No. RPU-92-10 (May 26, 1993); Iowa Electric Light and Power Company, Docket No. RPU-91-9 (July 31, 1992); and Iowa Power and Light Company, Docket No. RPU-88-10 (June 1, 1989). Consumer Advocate's approach to allocating costs is conceptually flawed and is extremely sensitive to the type and timing of generating plant additions. The Board notes Consumer Advocate's method has not been adopted by any other state commission.

The settlement also advances the principle, which the Board embraces, of cost-based rates. Cost-based rates promote earnings stability for the utility and provide a more reliable basis for determining future levels of energy costs for the customers. Cost-based rates promote energy efficiency by sending customers accurate price signals and place Iowa utilities in a better position to deal with inevitable market changes. Equity considerations warrant that each customer pay approximately what it costs the utility to serve that customer. However, progress toward the goal of cost-based rates may have to be tempered to avoid unreasonable rate shock. The settlement moves toward cost-based rates, but avoids unreasonable rate shock. While rates for some customer classes will decrease and rates for other classes will increase, all customers received notice of the potential for increased rates as a result of this proceeding.

As an alternative to its approach to allocating costs, Consumer Advocate argued certain adjustments should be made to the second settlement. Some of Consumer Advocate's adjustments are not adequately supported in the record, and others do not make a material difference in the settlement's final revenue changes.

While in isolation some of Consumer Advocate's proposals may be reasonable, Consumer Advocate's arguments do not show the second settlement to be unreasonable. The second settlement uses a cost allocation method previously approved by the Board in a manner generally consistent with prior Board decisions. Merely because individual issues may not be decided the same way by the Board does not mean the overall settlement on rate design and allocation issues is unreasonable. The record thus made does not persuade the Board that the proposed settlement is unreasonable or contrary to law or rule.

After reviewing the complete record in this proceeding, pursuant to IOWA ADMIN. CODE 199-7.2(11) (1994), the Board finds the terms of the August 10, 1993, settlement, as amended on December 21, 1993, to be reasonable and will approve it. There are no aspects of the settlement agreement which are inconsistent with Iowa law or the rules of the Board and the terms of the settlement agreement are in the public interest.

FINDINGS OF FACT

1. The August 4, 1993, and August 10, 1993 (as amended on December 21, 1993), proposed settlements are reasonable in light of the complete record in this proceeding.

2. The August 4, 1993, and August 10, 1993 (as amended on December 21, 1993), proposed settlements are consistent with law.

3. The August 4, 1993, and August 10, 1993 (as amended on December 21, 1993), proposed settlements are in the public interest.

CONCLUSIONS OF LAW

1. The Utilities Board has jurisdiction over the parties and subject matter of this proceeding, pursuant to IOWA CODE §§ 476.1 and 476.6 (1993).

2. Pursuant to IOWA ADMIN. CODE 199-7.2(11) (1994), this order constitutes the final decision of the Utilities Board in Docket No. RPU-93-4.

ORDERING CLAUSES

1. The proposed tariffs filed by Iowa-Illinois Gas and Electric Company on May 3, 1993, identified as TF-93-155 and TF-93-156, and made subject to investigation as part of this proceeding, are declared to be unjust, unreasonable, and unlawful.

2. The motions to approve the settlement agreements filed on August 4, 1993, and August 10, 1993 (as amended on December 21, 1993), are granted.

3. On or before 45 days from the date of this order, Iowa-Illinois Gas and Electric Company shall file tariffs for the Board's consideration to implement the terms of the settlement agreement.

4. Motions and objections not previously granted or sustained are denied or overruled.

UTILITIES BOARD

Dennis J. Nagel

Nancy S Boyd

ATTEST:

Raymond K Vawter

Executive Secretary

Emmit J George Jr

Dated at Des Moines, Iowa, this 25th day of February, 1994.

implemented, temporary rates designed to produce an increase in electric revenues of $6,839,494, in anticipation of the approval of this Settlement Agreement. The increase in electric revenues was allocated as a uniform percentage increase per class of customer, pending approval by the IUB of a final allocation of the agreed-upon revenue requirement among customer classes and other rate design issues.

By orders of various dates, the IUB authorized the intervention in this Docket of Deere & Company, Iowa Industrial Intervenors (Oscar Mayer Foods Corporation and Ralston Purina Company), Aluminum Company of America, and Sivyer Steel Corporation. North Star Steel Iowa has filed a petition to intervene but an order has not yet been issued in response to its petition.

ARTICLE II

Purpose

This Settlement Agreement has been prepared and executed by the signatories hereto for the purpose of resolving all revenue requirement issues. The allocation of the agreed-upon revenue requirement among customer classes and other rate design issues remain unresolved at the time of the execution of this Settlement Agreement. This Settlement Agreement is applicable only to this Docket and establishes the final revenue requirement in this proceeding.

In consideration of the mutual agreements hereinafter set forth, the signatories stipulate as follows.

ARTICLE III

Joint Motion

Upon execution of this Settlement Agreement, the signatories shall file the same with the IUB, together with a joint motion requesting that the IUB issue an order approving this Settlement Agreement in its entirety, without condition or modification.

ARTICLE IV

Condition Precedent

This Settlement Agreement shall not become effective unless and until the IUB enters an order approving the same in its entirety without condition or modification.

ARTICLE V

Privilege and Limitation

This Settlement Agreement is made pursuant to IOWA CODE Section 17A.10 and 199 I.A.C. §7.2(11). This Settlement Agreement shall become binding upon the signatories upon its execution; provided, however, that if this Settlement Agreement does not become effective in accordance with Article IV above, it shall be null, void and privileged. This Settlement Agreement is intended to relate only to the specific matters referred to herein. No signatory waives any claim or right which it may otherwise have with respect to any matter not expressly provided for herein. No signatory shall be deemed to have approved, accepted, agreed or consented to any ratemaking principle, any method of cost of service determination, or any method of cost allocation underlying the provisions of this Settlement Agreement or be prejudiced or bound thereby in any other current or future proceeding before any agency. No signatory shall directly or indirectly refer to this Settlement Agreement as precedent in any other current or future proceeding before the IUB.

ARTICLE VI

Test Period

The justness and reasonableness of the rates in this Docket shall be determined on the basis of the pro-forma annual electric revenue requirement for the test period consisting of the calendar year 1992, as adjusted.

ARTICLE VII

Rate Base

The electric jurisdictional rate base to be used to calculate Iowa-Illinois' annual electric revenue requirement in this Docket shall be as set forth in Attachment 2.

ARTICLE VIII

Revenue Requirements

The Iowa jurisdictional electric revenue requirement shall be $205,185,289 as derived and set forth in Attachments 1 through 6. This annual revenue requirement represents an increase in annual electric revenues for Iowa-Illinois of $6,839,494, as indicated in Attachment 1.

ARTICLE IX

Rate of Return and Capital Structure

The capital structure to be used to calculate Iowa-Illinois' annual electric revenue requirement in this Docket shall be as set forth in Attachment 6. The authorized return on common equity for Iowa-Illinois' jurisdictional electric operations for the purpose of this Docket shall be 11.25%.

ARTICLE X

Procedure Applicable to Unresolved Issues

The allocation of the revenue requirement agreed upon herein and the final design of the electric rates, issues not resolved by this Settlement Agreement, shall continue to be litigated on the schedule established by the IUB.

ARTICLE XI

Execution

To facilitate and expedite execution, this Settlement Agreement has been executed by the signatories in multiple conformed copies which, when the original signature pages are consolidated into a single document, shall constitute a fullyexecuted document binding upon all the signatories to be filed with the IUB.

Attachment 1
Page 1 of 1

Iowa-Illinois Gas & Elec. Company
Docket No. RPU-93-4
Iowa Jurisdictional
Revenue Requirement
Electric Operations

Line No.	Description	Amount
	(a)	(b)
1	Rate Base	$426,833,805
2	Rate of Return	9.330%
3	Allowed Return	$39,823,702
4	Adjusted Test Year Income	$35,768,566
5	Additional Income Required	$4,055,136
6	Income Tax Effect	$2,784,358
7	Revenue Deficiency/(Excess)	$6,839,494
8	Adjusted Test Year Revenue	$198,345,794
9	Revenue Requirement	$205,185,289

* Not all numbers may compute due to computer rounding.

Iowa-Illinois Gas & Elec. Company
Docket No. RPU-93-4
Average Rate Base
Electric Operations
(000's)

Attachment 2
Page 1 of 1

Line No.	Description	Plant In Serv.	Accum. Depr.	Net Plant	Cust. Adv.	Cust. Dep.	Def. Income Taxes	3% Inv. Tax Credits	Accum. Prov.	Cash Work. Cap.	M&S	Fuel Stocks	Other Pre-Payments	Working Funds	Avg. Rate Base
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
1	Iowa Jurisdictional Per Books	$770,625	$269,669	$500,956	$732	$491	$74,044	$439	$4,744	($10,870)	$7,821	$7,329	$3,594	$109	$428,489
	Pro forma Adjs.														
2	Storm Damage	2,188		2,188											$2,188
3	PBOP						0								0
4	A/D 1992 QC Station		39	(39)											(39)
5	Nuclear Decomm.						0								0
6	Pl. Held for Fut. Use	(222)		(222)											(222)
7	Cash Working Cap.									(397)					(397)
8	Coal Inventory Adj.											(216)			(216)
9	Working Funds													(109)	(109)
10	Fuel Oil Inventory											(193)			(193)
11	Tax/Book Timing Diff						1,813								(1,813)
12															
13															
14															
15															
16	Total Adjs.	1,966	39	1,927	0	0	1,813	0	0	(397)	0	(409)	0	(109)	(800)
17	Adjusted Rate Base	$772,591	$269,708	$502,883	$732	$491	$75,857	$439	$4,744	($11,267)	$7,821	$6,920	$3,594	$0	$427,689
18	Non-juris. Amount	1,545	539	1,006	1	1	152	1	9	(23)	16	14	7	0	855
19	Iowa Jurisdiction	$771,046	$269,169	$501,878	$731	$490	$75,705	$438	$4,735	($11,244)	$7,805	$6,906	$3,587	$0	$426,834

Iowa-Illinois Gas & Elec. Company
Docket No. RPU-93-4
Cash Working Capital
Electric Operations

Attachment 3
Page 1 of 1

Line No.	Description	Per Books	Pro Forma Adjustments	Adjusted Total	Expense Per Day	Rev. Lag Days	Exp. Lead Days	Net Days	Working Capital Requirement
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1	O & M	$67,012,810	795,203	67,808,013	185,775	39.70	22.90	16.8	$3,121,026
2	Iowa Property Taxes	$12,370,000	0	12,370,000	33,890	39.70	365.00	(325.3)	($11,024,551)
3	Illinois Prop. Taxes	$454,000	0	454,000	1,244	39.70	418.22	(378.5)	($470,817)
4	State Income Taxes	$1,710,247	1,082,361	2,792,608	7,651	39.70	103.40	(63.7)	($487,367)
5	Federal Income Taxes	$4,308,968	3,381,279	7,690,247	21,069	39.70	53.44	(13.7)	($289,490)
6	Ill. Invested Cap. Tax	$737,000	0	737,000	2,019	39.70	34.20	5.5	$11,105
7	Federal Superfund Tax	$31,000	0	31,000	85	39.70	53.44	(13.7)	($1,167)
8	Long-term Debt Interest	$13,912,000	797,770	14,709,770	40,301	39.70	91.25	(51.6)	($2,077,503)
9	Preferred Stock Dividends	$2,713,000	253,829	2,966,829	8,128	39.70	45.63	(5.9)	($48,201)
11	Cash Working Capital Requirement								($11,266,964)

Iowa-Illinois Gas & Elec. Company
Docket No. RPU-93-4
Income Statement Summary

Attachment 4
Page 1 of 2

Line No.	Description	Per Books	Pro Forma Adjustments	Adjusted	Increase (Decrease)	Final Adjusted
		(a)	(b)	(c)	(d)	(e)
1	Operating Rev.	$191,655,000	7,088,281	$198,743,281	$6,853,201	$205,596,482
	Operating Expenses					
2	Operation & Maint. Exp.	105,933,217	795,203	106,728,420		$106,728,420
3	Depreciation Expense	28,217,513	2,765,014	30,982,527		$30,982,527
4	Amortization Expense	97,921	0	97,921		$97,921
	Taxes Other Than Inc.					
5	Property Taxes	0	0	0		$0
6	Utilities Div. Fees	0	0	0		$0
7	Other General Taxes	15,015,714	20,581	15,036,295		$15,036,295
8	Fed. Unemployment Taxes	0	0	0		$0
9	FICA Taxes	0	0	0		$0
10	State Unemployment Taxes	0	0	0		$0
	Income Taxes					
11	Current Fed. Inc. Taxes	4,308,968	1,288,312	5,597,280	2,092,968	$7,690,247
12	Current State Inc. Taxes	1,710,247	385,390	2,095,637	696,971	$2,792,608
13	Prov. for Def. Taxes	3,614,011	25,199	3,639,210		$3,639,210
14	Investment Tax Credits	(1,274,255)	0	(1,274,255)		($1,274,255)
15						
16	Total Operating Expenses	157,623,336	5,279,699	162,903,035	2,789,938	165,692,973
17	Net Income	$34,031,664	$1,808,582	$35,840,246	$4,063,263	$39,903,509
18	Non-jurisdictional Amount	$68,063	$3,617	$71,680	$8,127	$79,807
19	Iowa Jurisdiction Net Income	$33,963,601	$1,804,965	$35,768,566	$4,055,136	$39,823,702

Iowa-Illinois Gas & Elec. Company
Docket No. RPU-93-4
Income Statement & Adjustments
Electric Operations
(000's)

Line No.	Description	Rate Revenue	Other Revenue	Total Revenue	O&M	Not Used	Not Used	Depr. and Amort.	General Taxes	Federal Inc. Taxes	State Inc. Taxes	Def. Inc. Taxes	Inv. Tax Credits	Total Expenses	Net Income
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
1	Iowa Jurisdiction Per Books	$187,443	$4,212	$191,655	$105,933	$0	$0	$28,315	$15,016	$4,309	$1,710	$3,614	($1,274)	$157,623	$34,032
	Pro Forma Adjs.														
2	Annualize Rate Incr.	6,625		6,625						2,023	674			2,697	3,928
3	Gen. Wage Adj.				297				21	(97)	(32)			189	(189)
4	Wages--Joint Plants				121					(37)	(12)			72	(72)
5	PBOP				429					(131)	(44)			254	(254)
6	Bank Fees				54					(16)	(5)			32	(32)
7	Cust. Dep. Interest				60					0	0			60	(60)
8	IUA Dues				(38)					12	4			(23)	23
9	Chamber Dues				(6)					2	1			(3)	3
10	Rate Case Exp.				158					(48)	(16)			94	(94)
11	Nuclear Decomm.							2,661		(813)	(271)			1,577	(1,577)
12	QC Plant Additions							78		(24)	(8)			46	(46)
13	Storm Damage				283			27		(95)	(31)			184	(184)
14	Interest Sync.									152	50			202	(202)
15	Excl. Nonrecur. Items				(486)					196	22	25		(244)	244
16	Clinton Tax Prop.									0	0			0	0
17	Financial Fees				15					(5)	(2)			9	(9)
18	QC Station Exp				(92)					28	9			(54)	54
19	Incr. in Cust. Level	463		463						141	47			188	275
20														0	0
21														0	0
22														0	0
23														0	0
24														0	0
25														0	0
26														0	0
27														0	0
28														0	0
29														0	0
30	Total Adjs.	7,088	0	7,088	795	0	0	2,765	21	1,288	385	25	0	5,280	1,809
31	Adj. Inc. Statement	$194,532	$4,212	$198,743	$106,728	$0	$0	$31,080	$15,037	$5,597	$2,095	$3,639	($1,274)	$162,903	$35,841

Iowa-Illinois Gas & Elec. Company
Docket No. RPU-93-4
Interest Synchronization
Electric Operations

Line No.	Description	Amount
	(a)	(b)
1	Rate Base	$427,689,184
2	Weighted Cost of Debt	3.425%
3	Pro Forma Interest	$14,649,770
4	Interest on Customer Deposits	60,000
5	Total	14,709,770
6	Book Interest	15,206,000
7	Difference	($496,230)
	Tax Adjustments: LTD Interest	
8	Federal (30.54%)	$151,549
9	State (10.17%)	$50,467
10	Weighted Cost of Preferred	0.694%
11	Pro Forma Preferred Dividends	$2,966,829
12	Book Preferred Dividends	$2,713,000
13	Difference	$253,829
14	Tax Adjustments: Pref. Div.	
15	Federal (30.54%)	$0
16	State (10.17%)	$0

Attachment 6
Page 1 of 1

Iowa-Illinois Gas & Elec. Company
Docket No. RPU-93-4
13 Month Average Weighted Cost of Capital
Electric Operations

Line No.	Description	Amount	Ratio	Cost Rate	Weighted Cost
		(a)	(b)	(c)	(d)
1	Long-term Debt	$323,985,809	44.30071%	7.732%	3.42533%
2	Preferred Stock	$68,593,455	9.37923%	7.396%	0.69369%
3	Common Stock	$338,753,933	46.32005%	11.250%	5.21101%
4	Total	$731,333,197	100.00000%		9.33003%

STATE OF IOWA

IOWA UTILITIES BOARD

Docket No. RPU-93-4
Direct Testimony of Charles A. Benore

Q. Please state your name, title, address and occupation.

A. My name is Charles A. Benore, senior vice president, PaineWebber, Inc., 1285 Avenue of the Americas, New York, New York 10019.

Q. What are your present responsibilities at PaineWebber?

A. I am responsible for providing utility investment advice to the firm's clients who are institutional and individual investors. As a part of those responsibilities, I am in continuing contact with investors in utility common stocks, and am aware of their attitudes about utility investments.

Q. Please describe your educational background.

A. I am a graduate of Ohio University with a bachelor of science degree in finance, and of The Ohio State University with a master of arts degree in economics. I was elected to Phi Kappa Phi and Beta Gamma Sigma honorary societies.

Q. Have you prepared an exhibit that contains information referred to in your testimony?

A. Yes. Exhibit No. ____(CAB-1), entitled "Exhibit of Charles A. Benore," consists of 22 Schedules prepared under my direction and supervision.

Q. Please summarize your professional experience.

A. I have presented testimony before twenty-seven state Public

19.

Q. Please state the results of your annual DCF test to determine the cost of Iowa-Illinois' cost of common stock.

A. The cost of common stock for Iowa-Illinois, after eliminating the three lowest values among the comparable companies to reflect the Company's higher risk, is 9.8% before issuance costs. Supporting data is shown on Schedule 20.

<u>ISSUANCE COSTS</u>

Q. Why is it necessary to adjust the allowed return on common stock equity for issuance costs?

A. Issuance costs are a necessary adjustment if investors are to earn the return found fair by the Board. It is a necessary adjustment even if new common stock is not sold.

The reason is that we are not dealing with an expense in the ratemaking sense, but a permanent capital shortfall, or deduction, in earning assets caused by issuance costs. Because of the reduction in capital invested due to issuance costs, regulatory earning assets are less than investor invested assets. A fair return applied to the lower level of regulatory earning assets, therefore, produces a lower than fair return on investor invested assets. A detailed discussion of why the adjustment is necessary along with supporting data appear in Schedule 21.

The formula to determine issuance costs is to divide the yield on a 12-month forward dividend by 1.0 less issuance costs. Issuance costs incurred by Iowa-Illinois averaged 4.0% as shown on Schedule 21. Therefore, the yield of each comparable company was divided by 0.96. The yield after adjusting for issuance costs was 25 basis points (0.25%) higher than the current yield before issuance costs as is shown on Schedule 20.

CONCLUSIONS

Q. What are the results of your four tests to determine the cost of common stock for Iowa-Illinois?

A. The results of the four tests including issuance costs of 0.3% are as follows:

TESTS	RESULTS
Market Equity Risk Premium:	12.7%
Capital Asset Pricing Model:	13.0%
Value Line Comparable Risk DCF:	12.8%
Annual DCF:	10.1%
Range of All Tests:	10.1% to 13.0%
All Tests:	12.2%
All Tests Except Outliers:	12.8%

Q. What are your conclusions regarding the results of the four tests of Iowa-Illinois' cost of common stock?

A. The range of the four tests including issuance costs of 0.3% is 10.1% to 13.0%, and the average of all tests is 12.2%.